

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Mohawk Valley Elementary School District No. 17

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 31, 2008

Governing Board
Mohawk Valley Elementary School District No. 17
5151 South Avenue, 39E
Roll, AZ 85347

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Superintendent in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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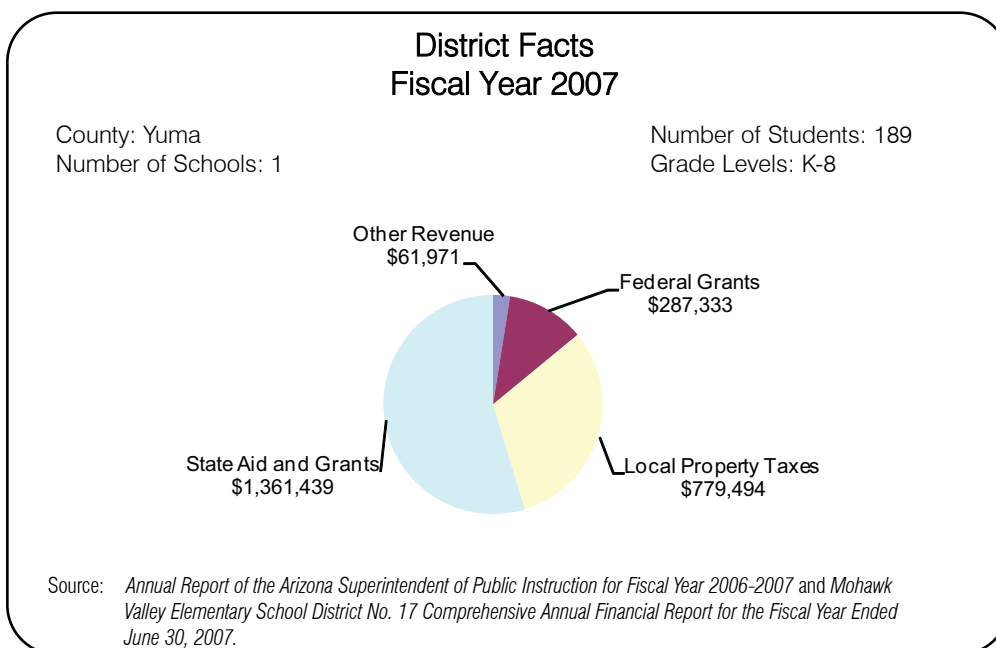
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INTRODUCTION

Mohawk Valley Elementary School District No. 17 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.4 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District's controls over competitive purchasing and expenditures should be strengthened

The District may not have received the best value for the public monies it spent as it did not always follow applicable procurement rules and guidelines.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines. For example, the District did not issue an invitation for bids or obtain at least three written or oral price quotations for purchases that required them. In addition, the District did not document that due-diligence procedures were performed for purchases made through a purchasing cooperative. Also, the District did not maintain a conflict-of-interest file despite a known conflict.

It is also essential that the District follow procedures designed to help ensure that its expenditures are adequately controlled and supported and that effective internal controls are established to monitor credit card expenditures. However, the District did not have adequate controls over expenditures, including credit card expenditures. Specifically, the District did not always retain supporting documentation for expenditures or ensure that sufficient cash was available in cash-controlled funds before approving expenditures from those funds. In addition, employees making credit card purchases were not consistently identified on receipts and the District did not always retain its credit card checkout logs.

Further, districts should ensure amounts paid to district employees and governing board members for travel are in accordance with its policy and do not exceed the standard mileage, meal reimbursement, and lodging reimbursement rates established by the Arizona Department of Administration (ADOA). However, the District reimbursed employees who had been in travel status for meals at a set rate, even though the District's policy was to reimburse meal expenses based on actual cost. In addition, the District did not always retain detailed documentation to determine the length of time employees were in travel status, supporting receipts, or conference brochures. Finally, the District inappropriately reimbursed actual fuel costs rather than mileage at the ADOA-established rate.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that individually, or in the aggregate, exceed \$33,689.
- Obtain written price quotations from three or more vendors for purchases costing at least \$15,000 but less than \$33,689, and oral price quotations from three or more vendors for purchases costing at least \$5,000 but less than \$15,000. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations.
- Document due-diligence procedures performed for at least a sample of the contracts that the District wishes to use from a purchasing cooperative to ensure that cooperative contracts were bid following the School District Procurement Rules.
- Require all Governing Board members and employees who have or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of the District to file a conflict-of-interest statement and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. Also, if an employee supervises a relative, the conflict-of-interest statement should describe the relationship, and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay rates. Arizona Revised Statutes §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- Maintain a file for public inspection of all known conflicts of interest.
- Retain all documentation to support expenditures, including vendor invoices.
- Require employees using district credit cards to promptly submit receipts to the business office and indicate on them the employee making the purchase and the specific district purpose for the expenditure. Retain supporting documentation for all credit card expenditures.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.
- Ensure that travel claims are supported by reimbursement requests, detailed receipts, and conference brochures, as applicable, and that the reimbursement is in accordance with the District's policies before approving travel claims.

School District Procurement Rules provide the requirements for competitive sealed bids for goods and services in excess of \$33,689.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

- Review travel claims to ensure that travel expenditures are appropriate and within the limits set forth by ADOA. Reimburse mileage at the standard rate established by ADOA.

FINDING 2

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. For example, the capital assets list included items with a historical cost of less than \$5,000 and assets on the list were not always assigned a tag or other identification number. In addition, the capital assets list had numerous errors, including errors in depreciation calculations. Further, the stewardship list did not include all the required information, and items on the list were not always assigned permanent tag numbers. Finally, items included on the stewardship list could not be located on the District's premises, and items selected from the premises were not included on the stewardship list.

The District did not effectively account for or control its capital assets.

Recommendations

To improve control over its assets and help ensure that its capital assets and stewardship lists are accurate and complete, the District should:

- Prepare and maintain a complete and accurate capital assets list that includes all equipment with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more.
- Ensure that the capital assets list includes all required information.
- Affix a permanent tag to, mark with an identifying number, or identify by some other means, such as serial number, all equipment items costing \$1,000 or more.
- Maintain information required for depreciation in the same format as the capital assets list or include it in a separate depreciation schedule and have a second district employee verify its accuracy.
- Prepare and maintain a current stewardship list that includes all equipment costing between \$1,000 and \$5,000. The stewardship list should include the item's description, identification number (tag number), location, and the month and year of acquisition.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describes the information that should be recorded on the capital assets and stewardship lists.

FINDING 3

The District should ensure the accuracy of its financial information

The District did not report accurate financial information to the public and ADE in its expenditure budget and annual financial report.

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, expenditure budget, and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District's cash balances recorded on the reconciliation to the County Treasurer did not always agree to the District's records. In addition, the District did not record Instructional Improvement Fund revenues in accordance with the USFR Chart of Accounts, had several inactive funds, and inappropriately accepted vendor credits for E-rate expenditures rather than refunds. Further, the approved daily route miles and the student count reported on its expenditure budget work sheets did not agree to ADE's TRAN 55-1 and ADMS 46-1 reports, respectively. Finally, budgeted and actual expenditures reported on the AFR did not always agree with the District's most recently revised expenditure budget and accounting records.

Recommendations

To help ensure that the financial information recorded and reported by the District is accurate, the District should:

- Reconcile its records of cash balances to the County Treasurer's records at least monthly and at year-end. Reconciling items should be investigated and any necessary corrections should be made.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Close all inactive funds.
- Accept only refunds, not credits, from E-rate vendors.
- Obtain transportation amounts reported in its budget work sheets from the prior year's TRAN 55-1 report and student counts from the prior year's ADMS 46-1 report.
- Ensure that budgeted and actual expenditures reported on the AFR agree to the most recently revised expenditure budget and accounting records. A second district employee should verify that the amounts reported on the AFR are accurate before submitting it to ADE.

USFR §III provides guidance for classifying financial transactions and closing inactive funds.

FINDING 4

The District's controls over payroll processing and compensated leave should be improved

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and that adequate records are maintained to support payroll expenditures and the accrual of vacation and sick leave. However, the District did not have adequate controls over payroll processing and leave information. Specifically, hourly employees were paid overtime, although they were not physically present for more than a 40-hour week. Also, the District's year-end journal entry to transfer a portion of teacher salary expenditures from other funds to the Classroom Site Fund inappropriately transferred expenditures from the Maintenance and Operation (M&O) Fund rather than the Title I Grant Fund. In addition, individuals were paid for vested vacation leave, although the District did not have a Governing Board-approved policy for vested vacation leave, and at least one payout was in excess of the employee's leave balance. Further, the District's compensated leave information included nonvested employee leave, numerous calculation errors, and incorrect payout rates.

Poor controls over payroll processing and compensated leave resulted in overpayments in employee wages and vested leave.

Recommendations

To strengthen controls over payroll processing and compensated leave, the District should:

- Prepare time sheets for hourly employees for each pay period documenting regular and overtime hours worked, vacation, sick leave, leave without pay, and compensatory time taken or earned during the pay period. Supervisors should approve overtime hours in advance and ensure that employees are eligible for overtime pay. Recover any overpayment of wages.
- Record and account for all revenues and expenditures of Classroom Site Fund monies in the Classroom Site Fund throughout the year, not at year-end.
- Establish and maintain a system to account for the accrual and use of vacation, personal, sick, and compensatory leave for all employees. Policies governing leave should include prescribed accrual rates for specified years of service, maximum amounts allowed to be accrued, and disposition of accrued time upon termination of employment.

USFR §VI-H describes the appropriate procedures for payroll processing.

- Retain authorized leave forms and maintain leave summaries to record vacation, sick leave, and compensatory time that each employee earned and used. These records should be updated at the end of each pay period. A second employee should verify that leave balances are calculated correctly.
- Prepare accurate compensated leave schedules at year-end to calculate the District's compensated absences liability and assign a second employee to review and recalculate the schedules.